

# How much money do I need to retire?



# Agenda for today

1	Retirement considerations
2	Life expectancy
3	How much income do you need in retirement?
4	Funding your income
5	Drawing Down your Pension
6	Income Tax
7	Increasing DC pension values
8	Questions

# Consider....

How long are you going to live for?

How fit & healthy will you be?

What do you want to do when you are retired?

How much will it cost to do what you want to do?

What income will you have when you stop working?

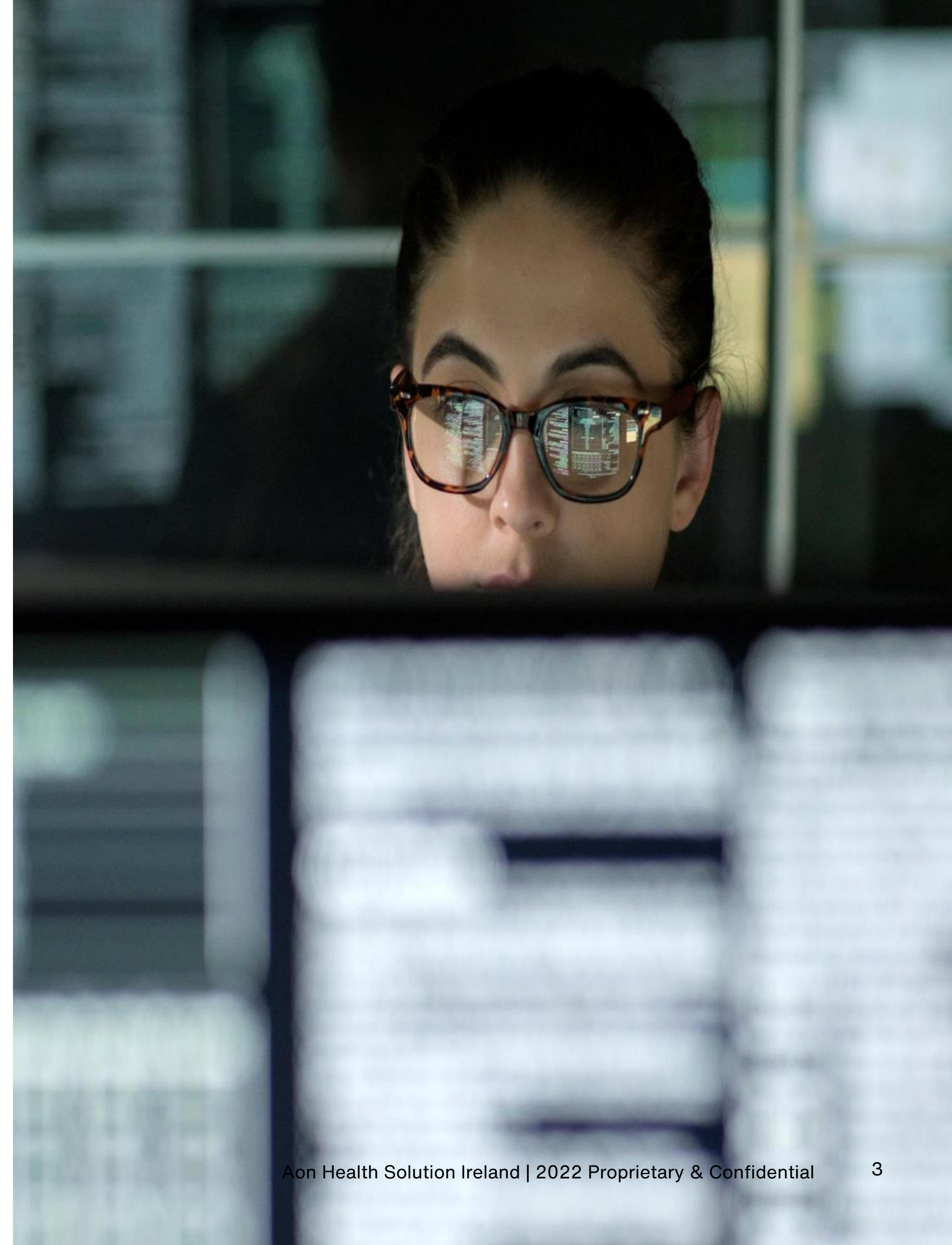
What savings & investments will you have?

Will you have any housing costs (rent or mortgage) when you are retired?

Will you be single or married?

Will your spouse/partner have any income, pensions, savings or investments?

**REMEMBER:** It is ok that your savings and pensions are reducing in value in order to meet your financial requirements in retirement. BUT you have to consider that you could run out of money to finance your retirement needs at some point.





# Life expectancy in Ireland





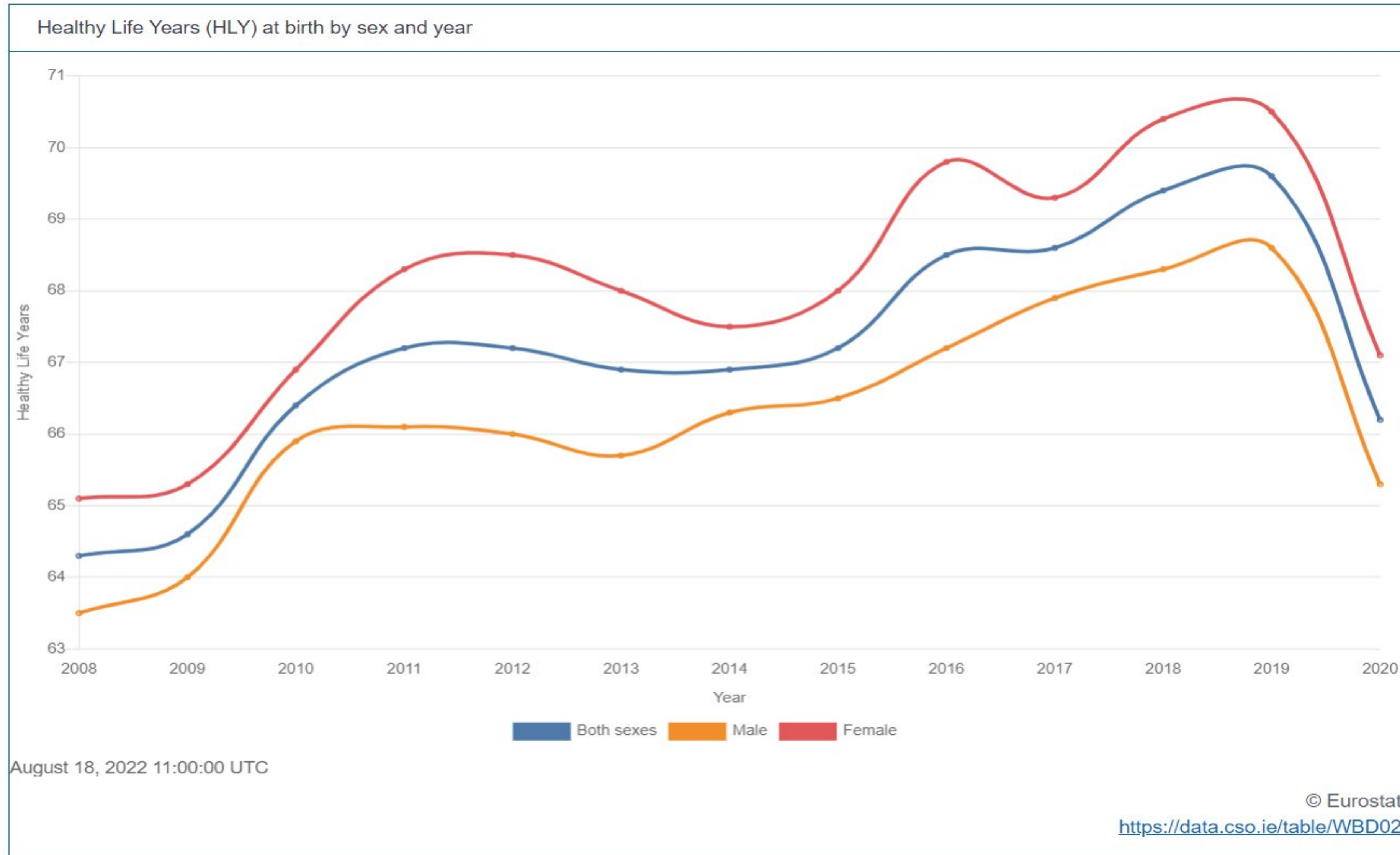
# Life Expectancy

Current Age	Male (Years)	Female (Years)
From Birth	79.6	83.4
50	81.4	84.5
65	83.3	86.0
75	85.9	87.9
80	87.9	89.4

Source: Central Statistics Office 2015-2017 (most recent Irish Life tables)

# “Healthy Life” Expectancy

**Healthy life expectancy** = An estimate of lifetime spent in "very good" or "good" health, based on how individuals perceive their general health.





How much income will you need in retirement?





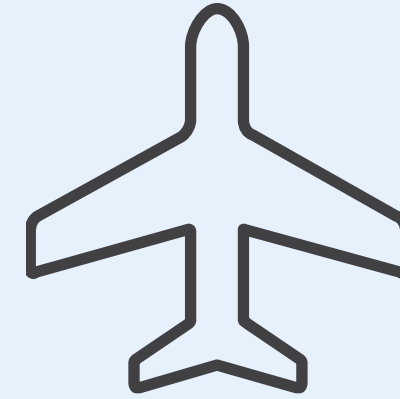
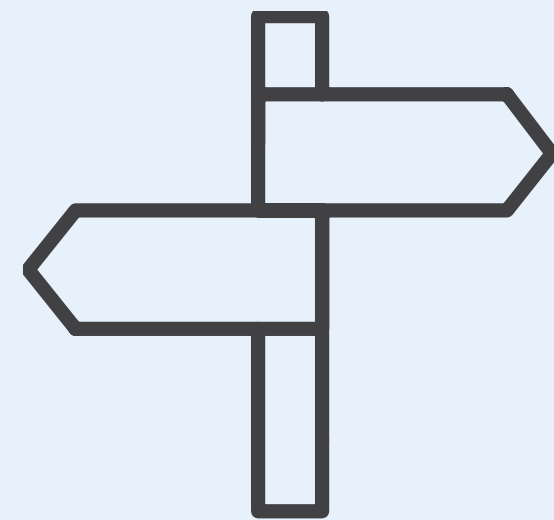
“Unless commitment is made, there are only promises and hopes; but no plans”

Peter Drucker



# Retirement Planning – Key things to consider

- Lifestyle
- Family Details
- Future Plans
- Health
- When
- How
- State Benefit Entitlement
- Assets and Liabilities
- Other Income





# Target Replacement Income

- Very difficult to estimate.
- Annual income needs and requirements will vary per person.
- Rule of Thumb: Target 50% of your gross pre-retirement income.

## Example (using average annual earnings in Ireland)^:

- Earnings before retirement = €45,780. Then Target retirement income = €22,890
- State Pension payable from age 66 = €13,171\* so shortfall of €11,829 p.a.
- How long expected to live. Example: Female at age 66 is expected to live to 86 so:
- 1 year of €22,890 (age 65 - 66) plus 20 years x €11,829 = €259,470 of a fund required at age 65.

## Considerations

- What if you happen to live longer than the average age?
- What about Health Life Expectancy for you (and partner)
- What if you want to retire earlier than 65?



# Starting to Plan

*“Psychological Anchoring”* = human tendency to rely too heavily on one trait or piece of information when making decisions

For retirement income the natural tendency is to “anchor” the retirement income you want to your pre-retirement salary either as a fraction or percentage of salary earned BUT... as your lifestyle, costs and income requirements will change once you retire, you should not consider income required in relation to salary but align it to your needs and objectives.

1. Decide **WHAT you want to do in retirement** so that you can then calculate how much it costs to be able to do this
2. Calculate your **Minimum Income Requirement (MIR)**, which is the amount of cost you have each month to “exist” (i.e. bills & food)
3. Calculate your **Desired Income Requirement (DIR)**, which is the amount of cost you have each month to “live” (i.e. MIR amount + discretionary spending such as holidays, gifts, eating out, buying new things, better food, saving or investing etc)

Calculate the amount of MIR & DIR assuming you are retiring today, this gives an understanding of the income you need to be have but remember the healthy life expectancy, you may not be able to do everything you want to do for the entire period of your retirement. **Will your income requirements change as you get older?**

Now consider the level of **GUARANTEED** income you (and any spouse or partner) will have in retirement from either State Pensions and/or a guaranteed ‘for life’ scheme pension or annuity. The difference between income required (MIR or DIR) plus any income tax you will have to pay and the guaranteed income you have is the amount that you need to fund in retirement from pensions and/or savings.

**NB: Remember to factor in any income tax that would be payable as this will reduce the amount of income you receive**



# How much money will you need in retirement?

## Budget Planner

	Amount per month
Mortgage/Rent	€
Loan Repayments	€
Utilities	€
Household Expenses	€
Insurances	€
Travel Expenses	€
Credit Cards	€
Regular Savings	€
Social Expenses	€
Other Expenses	€
<b>Total Net Monthly Expenses</b>	<b>€</b>

## Consider

How much income would you like?

What is the minimum amount you actually need?

	Amount per month
State Pension	€
Pension Income	€
Investment Income	€
Savings Income	€
Other Income	€
Annuity Income	€
<b>Total Net Monthly Income</b>	<b>€</b>



Interactive budget planners are available from various websites or apps.  
Try [www.ccpc.ie](http://www.ccpc.ie)



# Check the value of all your personal and company pensions

Gather your pension statements



## How?

- Request a Leaving Service Option Statement or Benefit Statement from the administrator of your plan

## Considerations

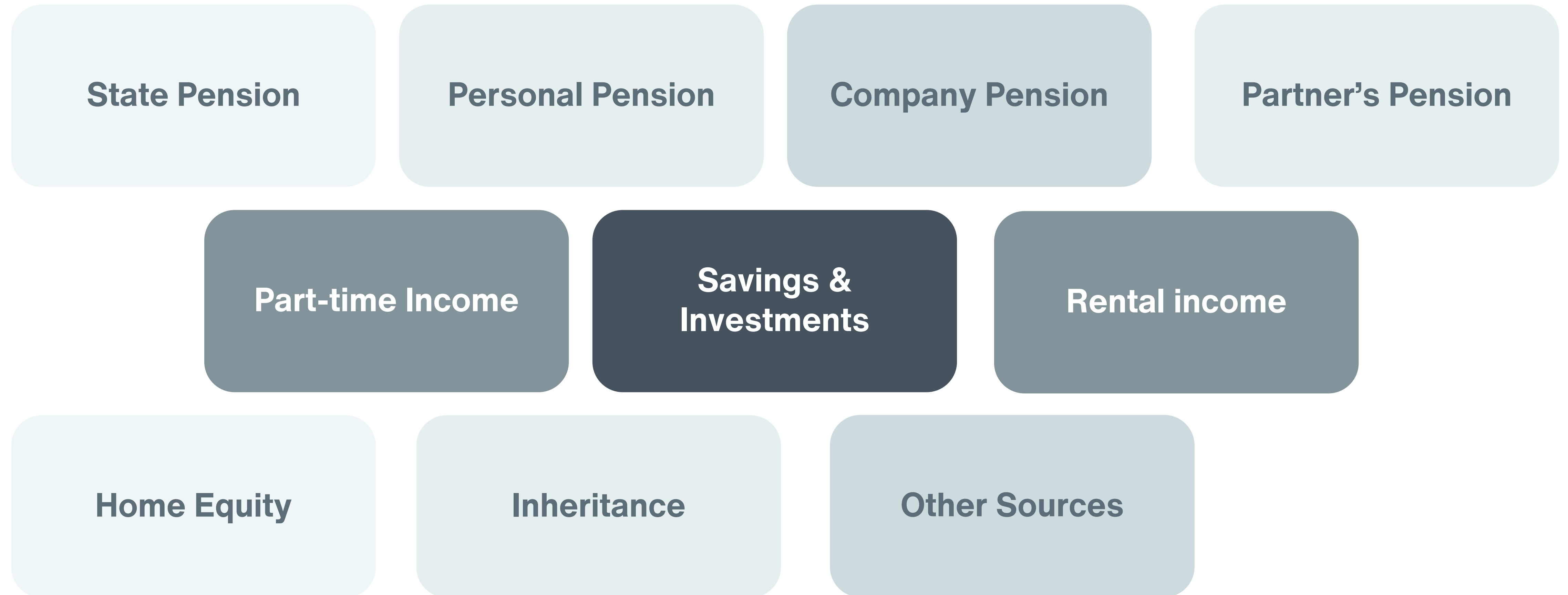
- Not all pension plan rules are the same – be aware of what is allowable
- Will past decisions affect future options?
- Do your fund choices and values reflect your current intentions?



# Funding your income



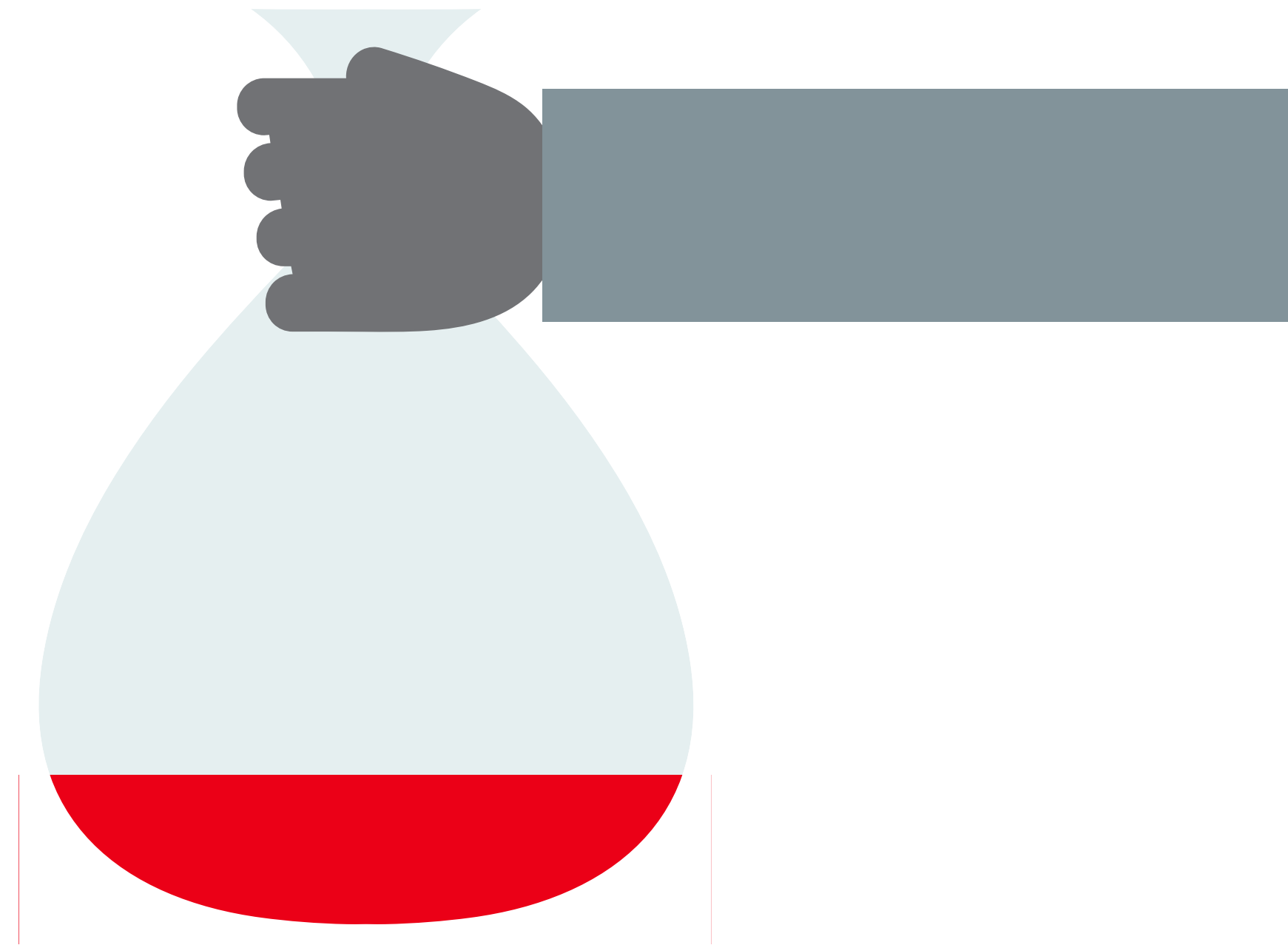
# Different sources of Income





# The State Pension

Will the State Pension be enough?



# The State Pension

## Contributory v Non Contributory Options

	State Pension (Contributory)	State Pension (Non-Contributory)
Level of payment	Depending on PRSI contributions	Means tested
Full pension	€253.30 per week	€242.00 per week (Rises to €252 per week at age 80)
Qualified adult under 66	€168.70 per week	€159.90 per week
Qualified adult over 66	€227.00 per week	None (must apply separately)

### Notes:

- You can only claim one or the other: not both the Contributory v Non Contributory Options
- There may be a gap between your occupational normal retirement age (usually 65) and when the state pension kicks in (age 66)
- You may be entitled to job seekers benefit for this period



# The State Pension

## Other social welfare payments

- Increase for a qualified child
- Living alone allowance
- Travel allowance
- Age 80 allowance
- Fuel allowance
- Electricity or Gas allowance
- Free TV licence (over 70)
- Over 70 – medical entitlements
  - May qualify for medical card / GP Card
  - Drugs payment scheme





# How to claim the State Pension

- You should apply **six months** before your 66th birthday
- You **cannot** apply online
- Complete application form SPT/C1
- Download that form here:  
<https://www.gov.ie/en/service/e6f908-state-pension-contributory/>
- Or take a hard copy from your local post office
- Return to:  
Department of Social Protection  
Dept of Social Protection  
College Road  
Sligo  
F91 T384

## Contact Details

Website: [www.gov.ie/SPC](http://www.gov.ie/SPC)

Telephone: (071) 9157 100

Email: [state.con@welfare.ie](mailto:state.con@welfare.ie)

The image shows a sample of the 'State Pension (Contributory)' application form (SPT/C1). The form is titled 'Application form for State Pension (Contributory)' and includes the following sections:

- Part 1 continued** and **Your own details** header.
- Social Welfare Services SPC 1** and **Data Classification R** logos.
- 12. Are you...** section with a grid for input.
- You need a Personal Public Service Number (PPS No.) before you apply.**
- How to complete this application form.** with instructions: Please tear off this page and use as a guide to filling in this form. Please answer **all questions**. Incomplete forms will be returned and this may delay your application. Please use **BLACK** ball point pen. Please use **BLOCK LETTERS** and place an **X** in the relevant boxes.
- If you do not have a spouse, civil partner or cohabitant:** Fill in **Parts 1 to 6** as they apply to you. When form is completed, read **Part 10** and sign declaration in **Part 1**.
- If you have a spouse, civil partner or cohabitant:** Fill in **Parts 1 to 7** as they apply to you. You must complete **Part 8** fully if you wish to claim an increase for your spouse, civil partner or cohabitant. Please note that this increase is based on a means assessment. If claiming this increase for your spouse, civil partner or cohabitant, you are legally obliged to declare all of their income (including foreign pensions), savings and property (other than your own home). **Part 9** must be filled in and signed by your spouse, civil partner or cohabitant. When form is completed, read **Part 10** and sign declaration in **Part 1**.
- If you have lived or worked in another country:** We will apply for a pension on your behalf to those countries covered by EU Regulations or Bilateral Agreements. If you need any help to complete this form, please contact your local Citizens Information Centre, your local Intreo Centre or your local Social Welfare Office. For more information, log on to [www.gov.ie/dsp](http://www.gov.ie/dsp).
- Important:** You should apply **3 months** before reaching pension age. If you do not claim within **6 months** of becoming eligible, you could lose some payment.



# Drawing down your Pension



# Drawing down your pension

## Options at retirement



### Retirement Lump Sum

- A once off cash tax free payment\*

25% of fund  
Or

Based on Salary and Service (up to a max of 1.5 x final remuneration – based on 20 years service)

\*up to revenue limits



### Annuity

- A regular income for life



### ARF

- Continued investment



### Taxable cash

- Taxed Cash



# Drawing down your pension

## Annuity V ARF



### Annuity

Guaranteed income for life

Fixed payment (% increases allowed)

Guaranteed period of 5 or 10 years

Can include dependant on policy\*

\*options to add if anyone has a life threatening illness, a larger regular payment may be made in the form of an enhanced annuity



### ARF

Pot of money- flexible draw down

Risk involved as invested in fund

Assets fully protected in the event of death

In the event of your Death - assets can pass to spouse tax free ARF or to estate

There are various options you may go after taking their tax free cash, however it's best to speak with an independent financial advisor closer to retirement date.



# Drawing down your pension

## Matt's example

Matt's been working with his employer since 1999.

He retires this year and his salary at retirement is **€60,000**.

Matt's Retirement Account value is **€400,000**.

### Option 1

**Tax Free Cash:**  $1.5 \times €60,000 = €90,000$

**Purchase Annuity with €310,000**

= Guaranteed income for life of **€11,537 p.a.** (single life)

### Option 2

**Tax Free Cash:** 25% of fund value = **€100,000**

**Invest 75% in an ARF\*:** **€300,000** to reinvest and continue to grow his funds

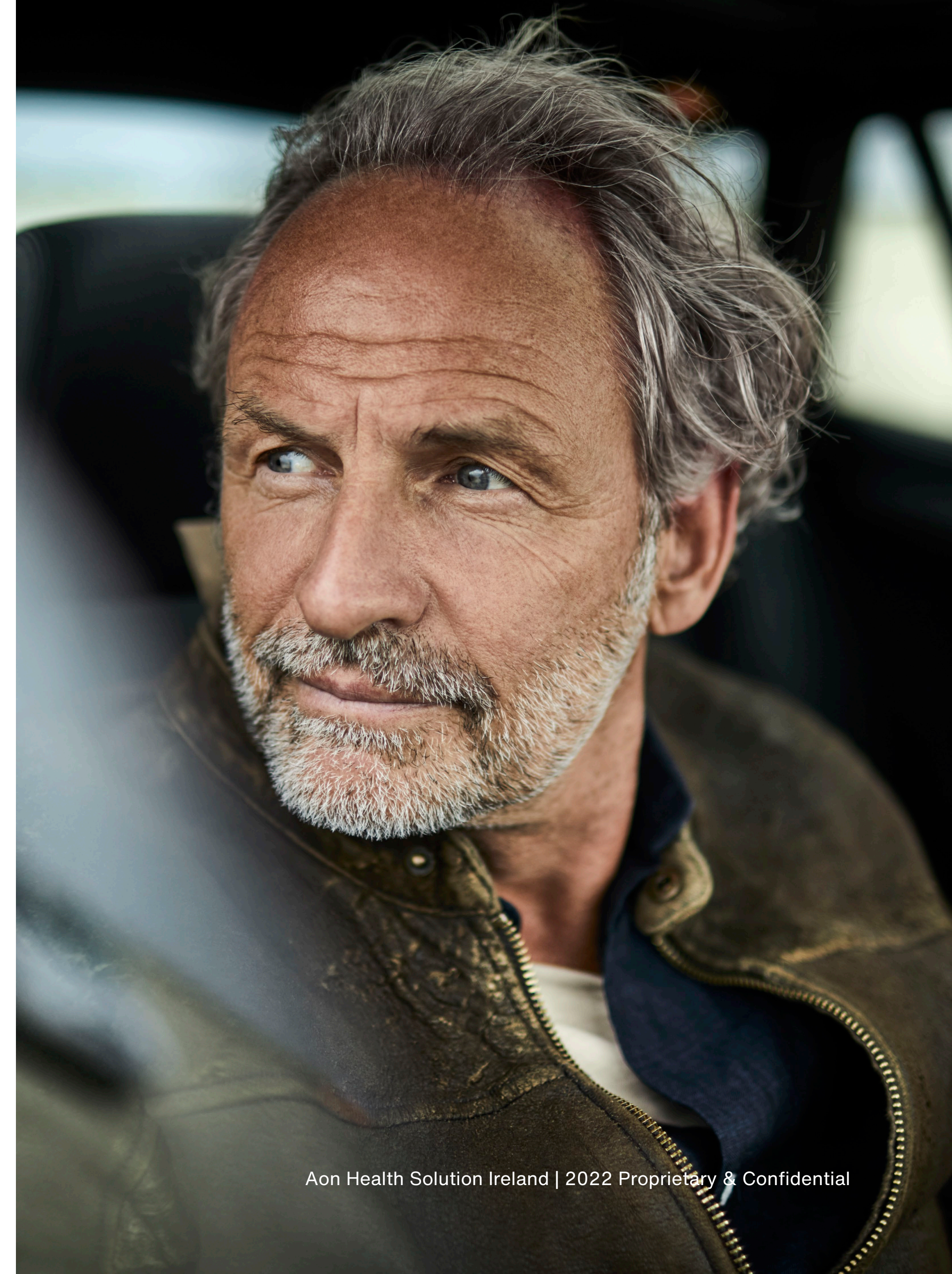
\*Imputed distribution tax from age 61 onwards

#### Notes

The examples above are for illustration purposes only and there can be less or more options available to members with additional restrictions depending on the option taken. It's recommended to speak with a financial planner before making any retirement decisions.

In Option 1, the max lump sum that can be taken is 1.5 x remuneration, however member must have at least 20 years or more company service. If less service, then the multiple reduces in line with service calculation table.

New legislation introduced in 2022 allows the 75% amount to be used for taxable cash or annuity also, depending on member's individual circumstance.





# Drawing down your pension

## Matt's considerations

- **Health Matters** - Ill health could lead to a better annuity rate

Smoker

Medication for High Blood Pressure

Diabetes controlled by tablets or insulin

Heart problems

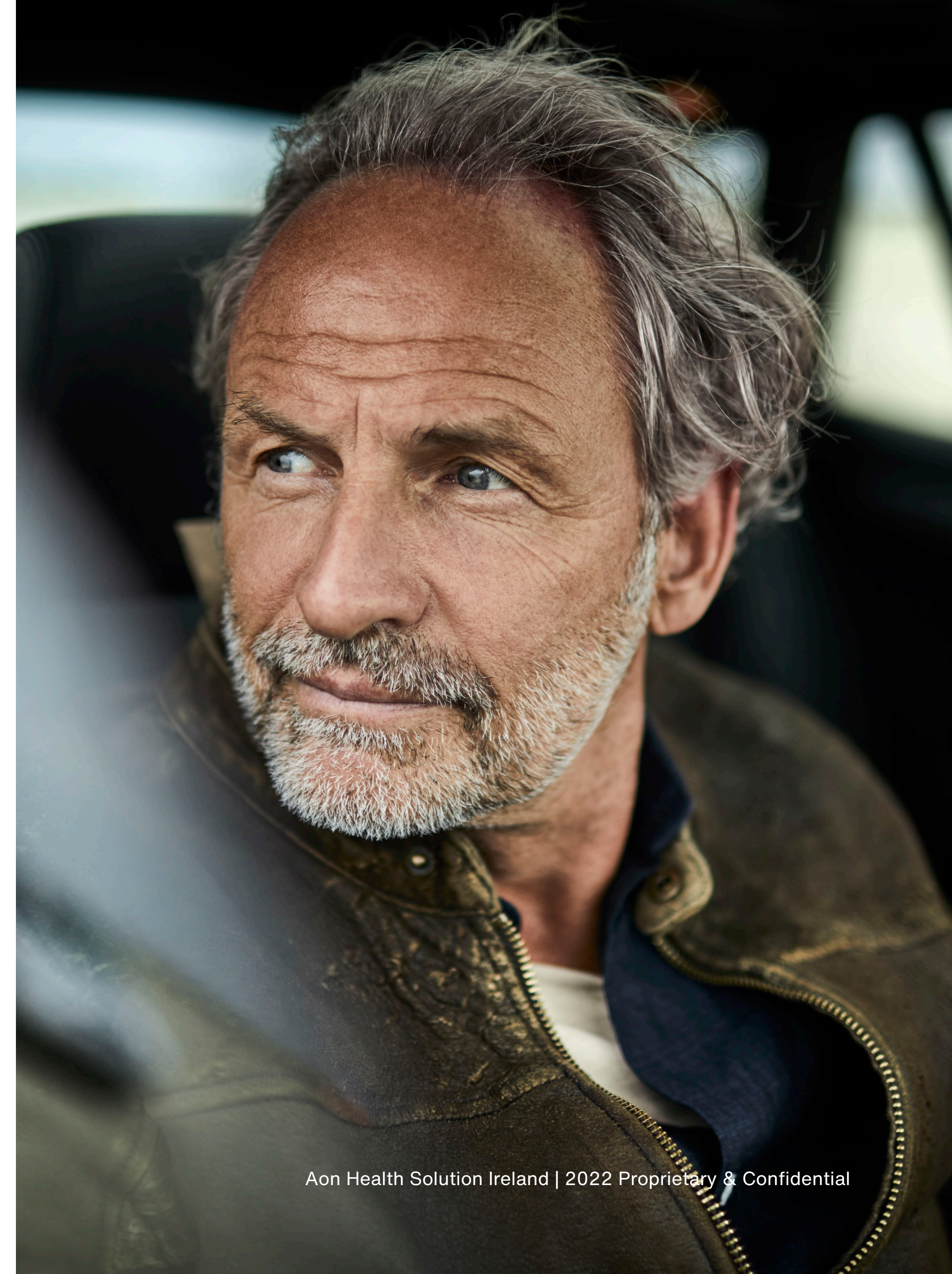
Medication for Angina

Stroke

Cancers

MS

- **Martial status / dependants**
- **Inheritance concerns**
- **Tax efficient way to take benefits**
- **Flexibility**





# Drawing down your pension

## Role that Aon plays in your retirement

### Retirement Roadmap process

- We look beyond your pension assets
- Investment advice (if applicable – ARF clients)
- Tax efficiencies
- Inheritance
- Family circumstances
- Assist you in making the most appropriate decision to suit your life and your needs.





# Income tax



# Income Tax Bands

	Initial @ 20%	40%
Single	€36,800	Balance
Married/Civil Partner (One income)	€45,800	Balance
Married/Civil Partner (Two incomes)*	€73,600	Balance
1 parent**	€40,800	Balance
* Increase is lower of €27,800 and income of lower earning spouse		
** Includes widowed parent and surviving partner		

## Notes

- Tax treatment depends on your personal circumstances.
- Your circumstances and the tax rules may change in the future.
- Tax credits are also available such as PAYE, single/married and home carer



# Exemption Limits

People aged 65 and over are subject to the same general tax rules as everyone else, however they get tax exemption limits below which they pay no tax.

Status	Limit
Single or widowed or surviving civil partner	€18,000
Married or in a civil partnership	€36,000
First two children	€575 each
Subsequent children	€830 each

- Tax treatment depends on your personal circumstances.
- Your circumstances and the tax rules may change in the future.



Increasing DC pension value

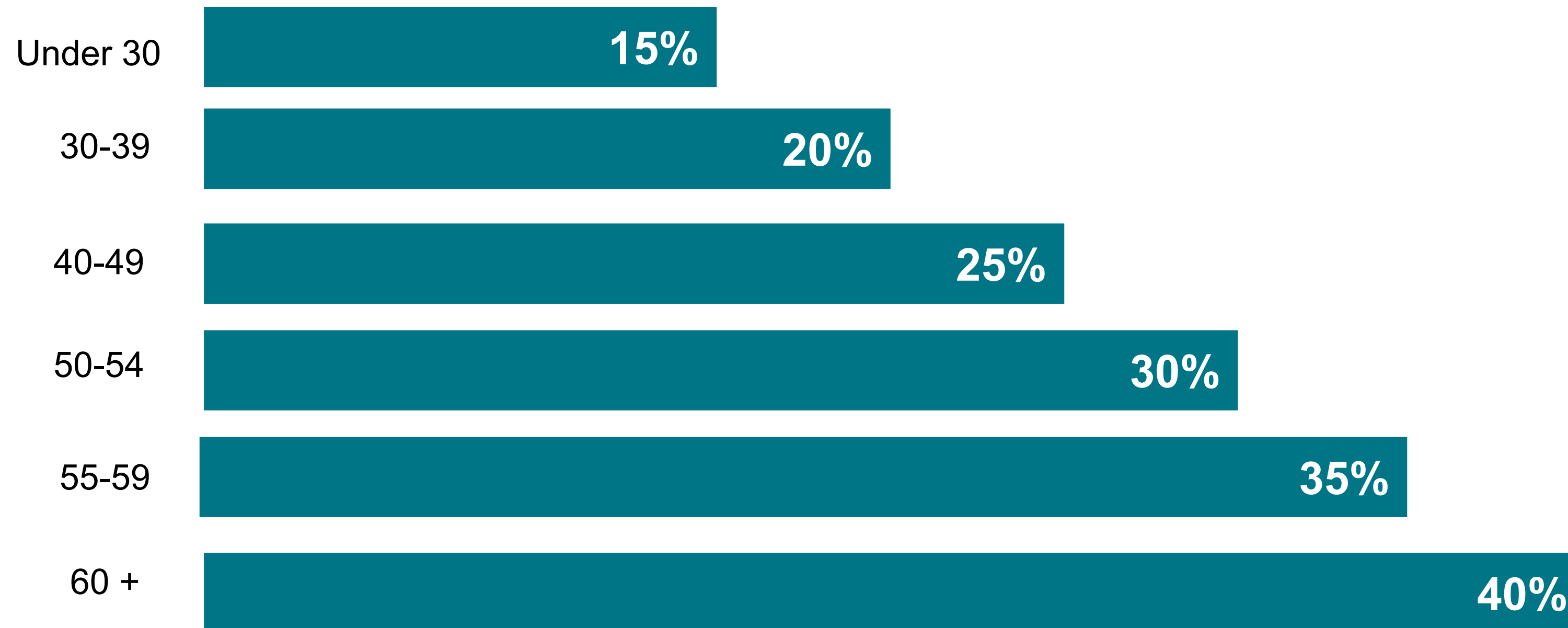




# What should I contribute?

- **As much as you can sensibly afford** within the limits
- In order to meet your **target income**
- Consider **AVCs**

## Revenue Limits



Notes:

- Based on earnings from employment
- Subject to a salary cap of €115,000 per annum

You can pay (and receive tax relief on) as much in contributions as you like within your salary.

However, if your payments exceed the Annual Allowance, you may incur an additional tax charge



# Lifetime Allowance

A Lifetime Allowance applies to the total amount of pension savings you can build up before any Lifetime Allowance excess tax charges are applied. It's called the Standard Fund Threshold.

The Lifetime Allowance is €2,000,000. This limit been in place since 1 January 2014.

- SFT firstly introduced on 7 December 2005
- Any excess over the Standard Fund Threshold will be subject to an income tax charge of 40%
- A Personal Fund Threshold – could have been applied for previously

## Maximum Lifetime Tax Free Lump Sum Allowed

- Up to €200,000 can be taken as a tax free lump sum
- €200,001 - €500,000 taxed at 20%
- €500,001 or more taxed at 40%

Note: All of the above subject to the rules of each pension scheme





# QUESTIONS



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